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Is Economic Rehabilitation of Germany Along Socialistic Lines Possible?

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GERMANY'S national debt totals between 260 and 280 billion marks. The national budget for the fiscal year 1920 estimates government revenues at about 42 billion and expenditures at about 109 billion marks and consequently shows a deficit of about 67 billion marks. According to the report submitted by the Minister of Finance several months ago, the national railroads are operating at a total annual loss of sixteen billion marks. Prices everywhere have risen unbearably. The supply of raw materials and especially of foodstuffs is exceedingly low. In consequence of the increase in the price of foodstuffs and of manufactured articles, the purchasing power of the large masses of the people has been exhausted. Consumption has decreased and unemployment has spread enormously. According to the latest reports of the National Department of Labor, the total number of wholly or partially unemployed at present is about three million.

The large masses of population expect to obtain relief by socializing economic life, without understanding clearly what is meant by socialization and how it is to be brought about. Everyone simply feels that something decisive must happen, that affairs can not go on as at present and if some sort of relief is not soon forthcoming, Germany will have to face a horrible future.

In the first place we must clearly understand the objectives to be at-

tained by all rational socialization, before we can consider the question of socialization in general, or to be more exact, the rehabilitation of German economic life. We may designate these objectives as follows:

(1) To increase production, particularly of foodstuffs and industrial raw materials.

(2) To lower prices.

(3) To satisfy employes and workmen.

(4) To eliminate unemployment and to make possible full-time employment for all who are able and willing to work.

The fundamental objective in the question of socialization, that is, in the question of how the above four demands may be fulfilled, is to be sought in increasing the productiveness of labor. This again depends upon improving labor conditions. Such improvement, however, as has been frequently demonstrated recently, can be attained, not only by providing sufficient nourishment and clothing and by protecting the laboring classes against the despotism, exploitation and oppression of the employer, but also by giving them an insight into the conditions of industrial management as well as a voice in the representation and a share of the responsibility in the operation of these industries. Particularly in the negotiations of the National Economic Council for carrying out the provisions of the agreement of Spa, the demands of the working classes have received

decided consideration, for not only the speakers for the independent socialists, but also the representative of the majority socialists, former Secretary of State, Wissell, the Chairman of the Christian Workmen's Union, Imbusch, and Professor Herkner of the Democratic Party, unanimously demanded for the workmen a voice in the management of industry. They considered this a deciding factor in the solution of the question of socialization by increasing production.

How is it possible to yield to this demand of the working classes? The industries are, so to speak, to be turned over to the workmen and nevertheless production is to be increased, where now the initiative and intelligence of our ablest private enterprisers can attain only insufficient production. A solution of this question, which seems to embody a realization of true socialization, appears impossible. Nevertheless, there is a solution, which is to be developed further in the following treatise.

Before taking up a consideration of the solution to be proposed, we must first explain two catch-phrases which confuse the discussion of socialization everywhere, and render it ineffective. The first catch-phrase is: Government control of industry has failed. Public works, which one is accustomed to designate as entirely socialized operations, have produced the worst economic and financial results. In consequence, socialization of industry, that is, taking over of the industries, to be operated by the state, would mean a further decrease in production and a further debasement of economic conditions.

This catch-phrase is absolutely correct. The operation of public works has failed completely. The causes for this are to be sought in the cumbersome bureaucratic operation and in

the small pay of officials who, in permanent positions, obtain the highest possible pay at the age of 65, when they are too old for efficient service and who develop only a very slight degree of interest in favorable economic conditions of industry as a result of shares of stock and bonuses allotted to them. Stacks of rules and regulations kill every bit of initiative they may have. Providing a fund for plant addition requires about one and one-half years from the time of its proposal until it becomes available. We can therefore see that the failure of government operation does not depend upon the fact that the state is the owner of the particular industry, but essentially upon the fact that the bureaucratic form of control in other government departments is employed in operating industries. Such control must be designated as the poorest type of operation that can possibly be devised. As a result of the universal condemnation of state control of industry, the large masses of those who have busied themselves, perhaps justifiably, with the weighty questions of socialization, conclude that private control of industrial enterprises in contrast with state control is the only correct type, and that, above all, the so-called initiative of the private enterpriser must be preserved, even in every type of socialization, if our own economic life is not to be destroyed. This catch-phrase, that the delight of private initiative of the enterpriser must not be impaired, plays by far the most important rôle in the discussion of socialization. At first glance it appears correct to the layman, because it contains something pertinent, but when generalized it leads to the most glaring fallacies, to which we can trace the universal confusion that prevails everywhere in the minds of those who are interested in the

question of socialization. It, therefore, requires an exact investigation.

Before we enter upon an analysis of the concept, enterpriser, we must consequently first busy ourselves with the concept, enterprise. We can divide the sum total of industrial enterprises into two classes. To the first class belong those industries that are still in the state of formation or of development, also those that present many varying individual problems and require quick decisions; in other words, those in which the creative activity and the inventive spirit of the individual enterpriser are of extreme importance. In brief, it includes production of specialized articles of every description, the aggregate of numerous small factories and industrial plants. In contrast with this first class of enterprises, we may distinguish a second class, which embraces only a relatively few large industrial undertakings, fully established and standardized. Having passed the stage of development they are today employing universally known methods of production, which are taught in our technical high schools. Here inventive activity passes more into the background, while the organization of industry is the essential in the first class of enterprises. Thus we would include wireless telegraphy, the building of airplanes, special construction of machinery, cable railways, cranes, and the erection of massive structures, bridges, tunnels and the like in Class 1. In the second class of enterprises, which embraces large-scale products, we would include the mining of coal, and the making of steel rails, locomotives, electro-motors, electric cables, cement, paper, etc. The industries in Class 2 have all passed the stage of Class 1, for at an earlier period they were in the stage of development. For example, telephone and electric

power transmission were almost entirely unknown thirty years ago, while today they are quite indispensable industries in our economic life. The line of demarcation between the two classes is not sharply drawn. For the investigation here undertaken, we merely need a general concept of this division.

If we consider industrial enterprises from the standpoint of socialization, we see that a cheap and sufficient supply of the essential necessities of life is the first objective of all socialization and that everything which extends beyond this does not enter into the consideration of the question at present. Everything that is a necessity is consumed in large quantities and therefore must be produced in large quantities. Such production, therefore, can be brought about exclusively by industries in Class 2; consequently, we need consider only industries in Class 2 in our program of socialization; that is, well-known large-scale productions, while special enterprises of Class 1 may be omitted for the time being. If we want to consider it an industrial operation, agriculture is apparently an exception, but upon closer examination, we discover that it can also be placed in the above classification. Contrasted with intensive agriculture on the landed estates, where large-scale production predominates, we have also farming on a smaller scale, where the personality of the individual landlord sets the standard.

If we now proceed to the analysis of the concept, enterpriser, we observe that there are various classes of enterprisers, even as there are a variety of enterprises. The inventor, the creator, the venturesome merchant, engrossed in his work, which frequently either thrives or fails with him, predominates in the enterprise of the first

class. Affairs are quite different with the huge enterprise for large-scale production. Here, in general, two essentially and fundamentally different enterprisers appear in place of the individual enterpriser. On the one hand, we have the investor in the large enterprise, generally organized as a company, and on the other hand, the director of the industry. Consequently we have to distinguish three classes of enterprisers, viz., the productive enterpriser, who is the guiding spirit in industries of the first class; the capitalistic enterpriser, who appears as investor in larger companies for extensive production, and the organizing enterpriser, who generally performs most weighty organization and administrative duties in companies organized for large-scale production.

In a discussion of socialization, the productive enterpriser disappears, since, as has already been shown, the enterprise of the first class need not be considered in connection with socialization. So much the more important is the consideration of the capitalistic and organizing enterprisers and their mutual relationship to one another. If we investigate this question, particularly with reference to socialization of large-scale production of necessities, we find that here the influence of the capitalistic enterpriser upon the organizing enterpriser is exceedingly dangerous and injurious to society. The interest of the capitalistic enterpriser, *i.e.*, of the investor, centers in deriving a suitably large profit from the enterprise, and he attains this without consideration of public interest, by offering high salaries and large shares of stock to the organizing enterpriser; that is, to the director, encouraging him to obtain a maximum increase in profits. It is difficult to increase the profits of an industry by lower-

ing the cost of production and much easier to attain this objective by raising the selling price, particularly in large-scale production of necessities. It is simply a question of eliminating competition of the industries by mutual agreement.

The masses must and will pay the higher prices because they need the essential products. These producers' agreements lead to the organization of monopolies, syndicates and trusts, which, as we know, today control our entire economic life and extend to almost all essential products. They were not injurious to German economic life before the war. Public control and foreign competition prevented any excesses, but as a result of the war and of the low exchange rate after the war, and particularly, as a result of the complete helplessness of the government in Germany more so than in any other country, they have developed into a frightful menace to economic life. The price of coal, for example, in England and America is about three times the prewar price; in Germany, eighteen times. With reference to steel, in England and America, prices have likewise been approximately tripled; in Germany, the price is thirty to forty times the prewar price. The same holds true of cement and other important raw materials for national industries.

The fearful effect of these increases in prices of raw materials upon the entire economic life is quite apparent. For example, simple calculation shows that the annual deficit of our railroads mentioned above, amounting to sixteen billion marks, may be traced almost entirely to the excessive increase in the price of coal, and particularly of steel; for the exorbitant prices of these products in turn cause an increase in prices of machinery, fertilizers and building materials, and

consequently in the cost of production of foodstuffs, which again means a rise in wages and in salaries. We see, therefore, that we have to distinguish between harmful and useful initiative of enterprisers. Useful initiative of producers is that of the productive enterprisers in the industries of Class 1. The initiative of the capitalistic enterpriser, who controls large monopolies, producing essentials and who ruins our economic life by imposing monopolistic prices, is, on the other hand, exceedingly harmful and fatal. It also exercises a venomous effect upon the initiative of the organizing enterprisers, the directors of the industries, who are frequently prevented by the dictates of the trust from employing their initiative entirely for economic and social welfare. The attempted opposition to monopolies on the part of national economic bodies, that is, supervisory councils, composed of enterpriser and workers, has failed completely. The German workman is influenced by the enterpriser to such an extent with promises that he gives his consent to almost absurd increases in prices. The only means of combatting the harmful effects of capitalistic private enterprisers in monopoly industries is to substitute public capital for private capital, at least to such an extent that the above characterized wrongs may be avoided. In general, we may arrive at the conclusion that socialization need be considered only in monopoly industries producing the necessities of life. For these the bureaucratic form of state control can not be employed. We must employ the more suitable form of private companies (corporations) which will increase the pleasure and joy of work on the part of the laborer by granting him an interest in the management and a part responsibility in production of the particular commodity.

HOW IS SOCIALIZATION TO BE PUT INTO PRACTICE?

Where is it to begin? Coal and steel are the basic products of our entire industry leading to the ultimate satisfaction of our requisites in transportation, clothing, food and shelter. It would be wrong to begin the socialization of coal only. The iron industry is by no means too complicated to present difficult problems for socialization. It constitutes a simple large-scale production with few products remaining uniformly the same. Coal and steel industries are so closely related economically that they can not be separated without incurring decided economic disturbances. The price of coal is essentially determined by the price of steel and can, according to the nature of the circumstances, be raised or lowered by gradations in steel prices. For this reason and because the fleecing of the general public is much more pronounced in steel prices than in coal, the socialization of the steel industry is more important than that of the coal industry, both financially and economically. It is evident that a simultaneous socialization of all coal and steel works is impossible. Particularly if indemnification is not paid in terms of the present inflated value of the stock, the opposition of the capitalistic class, of the public, and eventually with their assistance, that of the Entente, can not be overcome. Consequently, we must go forward slowly and first prove to the Entente and to the public with a sufficiently large experiment that in a socialized industry increased production and lower prices can be attained. When that has been done, a further carrying out of socialization will proceed unchecked. This consideration would make it advisable, first to expropriate about 10 to 15 per cent of the existing coal and steel

industries and to establish them as a new stock company, shares in which are held by the general public. In this manner a large mixed industry would be brought about, which would be superior to the largest German industries of a similar nature and which would be modeled exactly on the operating principles of the remaining private industries.

The participation of the workers would have to be brought about so that one-half of the supervisory councils' seats would be occupied by reliable representatives of the workmen and the other half by recognized industrial managers, economists and experts; that is, by representatives of the general public. It need not be feared that, in consequence, a policy of one-sided interests of the workmen in the company might be brought about, as is shown by the following fact. In our present monopolistic companies and industries the directorate is composed of 100 per cent capitalistic interests. The public acts as counterpoise. In the new company we have opposed to 50 per cent workmen's interests in the supervisory council 50 per cent general interests, and the latter are supported by the public who are regularly informed of the total output, cost of production and wages. The assurance that in the new company the workers' interest will not predominate, is perhaps, three times as great as is the assurance today that in our monopoly industry private interests will not prevail. In the directorate of such a company reliable representatives of the workmen may also be employed, particularly in those departments which deal with social questions, such as housing problems, management of consumers' association, provision of foodstuffs, fixing suitable work hours and wages, preventing accident, insurance, entertainment, education and athletics.

As a result of the coöperation of the reliable representatives in these departments with the remaining members of the directorate, who settle technical and commercial questions, a mutual confidential relationship will be established which will assist essentially in increasing the pleasure and joy of production.

Good results have already been attained in this respect in the factory von Fresse, in the socialized building operations and in the housing project of Captain Schmüde. Even very radical communistic workmen have declared, after taking into consideration the above proposals, that the resultant conditions, if sufficient nourishment is obtained, might restore former peace-time productivity in the coal mines. This would have an exceedingly great and almost inestimable bearing upon the rehabilitation of German industry.

The difficult question of profit-sharing by the workmen in socialized enterprises appears in quite a different light, if we apply it to the above-mentioned division of the various enterprises into the two classes. We see that the profit-sharing resulting from a possible socialization of enterprises in Class 1 is insignificant. Here we have free competition. It is not a question of essential products. Excessive prices are therefore precluded. In the enterprises of monopolies producing essentials which are included in Class 2, on the other hand, the interest of the worker in the production is exceedingly dangerous. It would make the workman a capitalist, as it were, and before long we should notice in him all symptoms of capitalistic greed, with which we are today reproaching capitalists.

A few remarks might be made concerning syndicalism and guild socialism. Applied to the practical illustration of

a huge mining and smelting project here employed, such socialization would mean that all supervisory council seats would be occupied by representatives of the working classes, and, since the supervisory council appoints the directorate, the influence of the workmen would solely determine the appointment of the directorate. The monopoly industries producing essentials would in consequence be subject to the danger of a one-sided emphasis of the workmen's interest, as contrasted with the interest of the public. This positively must be avoided. As a correct solution of this problem it appears that there should be a representation of 50 per cent of the workers and 50 per cent of the public in the supervisory council, and about one-third of the chief offices should be held by reliable representatives of the workmen in the directorate.

As applied to a large mining and smelting project, guild socialism presents still other problems. By separating our industries into guilds, such an enterprise as mining would be divided into five or six guilds, which would probably mean harmful results for industry in general.

That which was good and useful under our simple economic conditions several hundred years ago is no longer suitable for our larger industrial organization today, as it has developed in our complex industries to meet the demands of our complicated economic life. The advantages of a socialized, large, complex industry which, relative to the ore and coal supply, is quite independent and therefore absolutely opposed to all attempts at sabotage, may be gleaned from the following: in the first place, it makes possible a large corporate organization according to the American model. Furthermore, with the help of such an industry, the struggle against the present mo-

nopoly profiteering can be carried on successfully by publishing regularly the costs of production of various products, such as coal, rails, girdles, cylinders and wrought iron. Then the full extent of present-day profiteering will become apparent and with the help of the public we can begin the lowering of prices. This would mean the beginning of the rehabilitation of our financial and economic life which can not be accomplished in any other way today. Advantages are also to be derived to quite an extent for the entire laboring class. By publishing wages, work hours, and other social arrangements of such a socialized industry, the working classes, and particularly the industrial councils, in all other industries obtain an easy device, which aids them to establish similar wages and social institutions in their private enterprises. Today the industrial councils are to quite an extent inactive, because all this data is kept from them intentionally in various industries.

Much depends upon the success of the first step in socialization. In this manner, public opinion and the Entente may be won over to socialization and after the necessary experience has been obtained we can go ahead more rapidly. It depends upon converting at least a decided proportion, about 20 to 30 per cent of the production in all essential industries, in the manner above described, at first in those industries which offer a basis for quick development of agriculture: the production of nitrogen, of building materials, of agricultural machinery and of electricity. With the establishment of about ten thousand model farms of approximately 500 acres each, as Ballod describes them in his work on *The Future State*, the entire domestic need of Germany in food-stuffs and fibrin would be provided

for. Also the electrification of railways, if the necessary machinery can be produced in large industries working with low-priced steel, might be brought about in the near future.

The enormous problems here designated would assure us that unemployment would disappear for countless years to come. Whether or not one will continue beyond the limit of 20 to 30 per cent of socialized industry as indicated here, to 100 per cent ultimately, may be left for future consideration after favorable observations resulting from the first attempts of socialization are at hand. Many weighty reasons certainly are at hand in favor of letting certain types of private industries exist to compete with socialized industries. This, at all events, is the best way to prevent retrogression and ossification.

The question of indemnification of the former owners has caused a great deal of controversy. As a result of the partial socialization, as here proposed, we arrive at a satisfactory solution. On the basis of the present highly inflated prices of stocks indemnification can not be made, for they contain excessive profits extorted by monopolistic exploitation of the public. Partial socialization offers the possibility of lowering prices of monopoly products sensibly and consequently of bringing the quotation of securities to a suitable level. On the basis of such reduced quotations, one will then be able to pay indemnifications. Under certain conditions the usury and excessive monopoly profit obtained during the war and after the war might also be taken into account. A commission will be appointed to establish the amount of indemnification. This commission will pass its

decision one and one-half to two years hence in public session. By that time the lowering of prices and quotations will have begun. The transfer of property of industries to the general public will take place at a time officially set by the Commission. Until that time the industries will be leased to the public. During this compulsory leasehold suitable sums to defray interest charges on mortgages and obligations of the expropriated firms and individuals should be allowed.

A summary of the above discussion shows the following:

(1) In the first place, socialization must begin simultaneously with steel and coal.

(2) It must progress step by step, by first socializing an economically quite independent and well-established industry.

(3) This industry will be placed under the control of the general public together with equal participation of the working classes, so that the interests of both parties may be expressed proportionately.

(4) The operation of the industry in general must be conducted along lines of privately-managed industry. Bureaucratic control must be absolutely avoided.

(5) With the publishing of the costs of production in such an industry, the inflated prices of the most important raw materials can be reduced and consequently our economic life can be gradually restored.

(6) With the establishment of perfect social working conditions in a large socialized industry it is made possible to carry out these working conditions in the remaining industries by means of industrial councils.